WorkFirst Reexamination Workgroup

Focus Area Briefing Paper

Issue: Diversion Cash Assistance (DCA)

Goal: Increase self-sufficiency

Description: The DCA program is intended to meet one-time, emergent needs of families. Eligibility criteria are the same as those for TANF, but the family receives a lump-sum payment, averaging $1,376 in FY05 (not to exceed $1,500). The family cannot receive a DCA grant again within 12 months. In an average month in FY05, 494 DCA payments were made. If a client who has received a diversion payment applies for TANF within 12 months, their DCA payment must be repaid. However, the collection mechanisms are such that for a DCA grant of $1246, it would take 23 months of TANF receipt to recoup the entire amount.

Cost: The DCA budget in the FY06 preliminary spending plan is $8.5 million. Actual costs routinely surpass budgets for this program, since the demand, as well as the average grant amount, have increased steadily over time.

Background: Despite the apparent effectiveness of the DCA program (see below, 'research') it is not sustainable in its current form at its current budget level. The causes behind the ongoing growth in the caseload are unknown, but they have been consistent, and there is every reason to assume the growth will continue.

Research results:
Twenty-six states have some form of a diversion program, although they vary widely. Because of the mix of policies, and the prevalence of informal diversion policies (such as Washington's efforts to encourage alternative assistance sources), cross-state comparisons are very difficult. The few studies available, however, have found that:

- "Of diverted Oregonians, 67% did not return to TANF in a 19-month follow-up period, but that among those who did, one-third were receiving cash assistance within one to three months." [Acker & Morgan, 2001]
- "Since 1995, 85% of diverted customers in Virginia and 75% in Utah had not reapplied for cash assistance as of February 1998" [Johnson & Meckstroth, 1998]
- Internal analysis of the Washington DCA caseload has found that 25-30% of DCA recipients receive TANF within 12 months, and most of these (15%) are within six months.

The state of Maryland has studied its diversion program in greater depth. The program consists of either a lump-sum payment (followed by a number of months of ineligibility for TANF) or rapid employment services. The research found positive employment and earnings outcomes for families with both types of assistance, and low levels of ensuing TANF use. There is every indication, then, that diversion programs are effective at meeting families' emergent needs and preventing TANF dependence.

Policy options: The following policy options each go part of the way toward addressing the DCA budget problem, and can be considered in combination or alone.

	Budget impact	Impact on families
Continue status quo	None	none
Cap enrollment: 500 cases per month	Assuming flat average grant amount, total FY06 expenditures: \$8.3 million Assuming 5% growth in mean grant: \$8.7 million There would be additional costs from families who turned to TANF instead of DCA.	It can be assumed that any families who are turned away from DCA will: a) reapply the following month; or b) apply for TANF; or c) resolve their crisis without state assistance. However, there is no research to indicate the distribution of families between these categories.
Lower grant amount: maximum \$1200	Assuming current growth rate in the DCA caseload (17%/year), capping the grant at \$1200 (assuming almost all grants are for the full amount) would yield FY06 expenses of \$8.4 million and FY07 expenses of \$9.8 million	Most DCA grants go to pay housing costs. The average DCA housing grant is over \$1200. Therefore, there is a strong possibility that a DCA ceiling of 1200 could encourage some families to seek TANF grants in order to access the AREN program.
Eliminate program	While only 25% of DCA clients use TANF in the year following their DCA grant, it is likely that a larger number might turn to TANF in lieu of a DCA alternative. Assuming a 4-month stay on TANF, if more than 29% of the DCA pool instead turned to TANF, the ensuing costs would exceed the savings from DCA. WorkFirst program costs for these clients would be additional.	This is mostly unknown, but it can be assumed that some families may choose not to apply for TANF, or be for some reason ineligible, and might be unable to meet their emergent needs.
Add period of TANF ineligibility	Most state diversion programs have a period of ineligibility for TANF following a diversion grant. Often this is equal to the diversion grant amount divided by the TANF grant for which the family would be eligible. A 3-month period of ineligibility would save roughly \$147,617; a 6-month period would save roughly \$386,204.	
Tighten reimbursement requirements	Full recoupment of DCA expenses for the 25% of recipients who come on TANF within a year would have yielded roughly \$2 million based on FY05 caseloads. However, it is likely that a somewhat smaller number of DCA clients would transition to TANF under this policy scenario.	
Limit receipt to less often than once/year	Since August 1997, a total of 17,015 DCA grants have been dispersed. Had these been limited to once in a lifetime, 1,901 of these would have been denied, for an annualized savings of \$407,411.	